

UK power derivatives settlement and bank solution

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1 Introduction

This document gives a brief introduction to the UK power futures contracts to be listed on the NASDAQ OMX Commodities (NOMX) financial market (the contracts are also referred to as the GBP contracts). The main areas covered are the contract structure, the settlement process, the bank solution, and the clearing account setup. The GBP contracts deviate from the existing power contracts (also referred to as the EUR contracts) at the NOMX financial market in three important aspects:

- GBP contracts are quoted and settled in GBP.
- GBP contracts are tradable according to a separate UK trading calendar.
- Special settlement and collateral arrangements are required for the GBP contracts.

Time references in this document are made to Greenwich Mean Time (GMT) (as defined in the clearing rules). Other capitalized terms used in this document shall have the meaning ascribed to them in the clearing rules unless otherwise stated.

For more information of the clearing rules please see:

www.nasdaqomxcommodities.com/membership/legalframework

2 The UK power futures contracts and opening hours

The new contracts are futures contracts that are cash settled. The following base load contracts will be tradable at the Exchange and available for OTC clearing: 5 week contracts, 4 month contracts, 4 quarter contracts and 5 season contracts. The following peak load contracts will be tradable at the exchange and available for OTC clearing: 5 week contracts, 4 month contracts and 2 quarter contracts.

The exchange opens at 07.00, and OTC trades can be reported from 06.00. The contracts can be traded until 17.00. By 17.15 the members must allocate any contracts from the Intraday account to another clearing account. For more information of the clearing schedule, please see:

www.nasdaqomxcommodities.com/digitalAssets/68/68697_clearingappendix4.pdf

2.1 Cascading

Season and quarter contracts will be cascaded. In the cascading process the members receive new contracts. These new contracts have the same quantity, the same total contract lengths and the final closing price of the contract.

- Seasons are cascaded into (two) Quarters three full trading days (i.e. bank days) before the delivery period of the season begins.
- The quarters are cascaded into (three) Months on the last trading day (i.e. bank days) before the delivery of the quarter begins.
- Assigned contracts receive **the final closing price** of the product that cascades.
- The products are cascaded from the total position, not the original trade.
- Cascading is mandatory.

See the product calendar to get full overview:

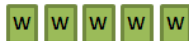
www.nasdaqomxcommodities.com/trading/practicaltradinginformation/productcalendar

Product code: EUK -> Electricity UK

Base: 5 Week (168 h), 4 Month (e.g. 744 h), 5 Quarter (e.g. 2209 h), 2 Seasons (e.g. 4380 h)

Peak: 5 Week (60 h), 4 Month (e.g. 264 h), 2 Quarter (e.g. 780 h)

Weeks:



Note: Seasons are cascaded to quarters, and quarters to months.

Months:



Quarters:



Seasons:



Winter season (WS)

Summer season (SS)



Fig 1: Overview of product structure for electricity UK (EUK) for one year. Note that not all week products of one year are in the model.

In a given example when a member sell 50 MW of EUKBLQ4-11 at £ 40.00 and the final closing price is £ 42.00 the following will happen on the last trading day of Q4-11, the 30 of September 2011: the product will automatically cascade to a 50 MW sell of EUKBLMOCT-11, a 50 MW sell of EUKBLMNOV-11 and a 50 MW sell of EUKBLMDEC-11, all at £ 42.00.

Example: Quarter cascades to months (*note: cascading of position, not original trade*).

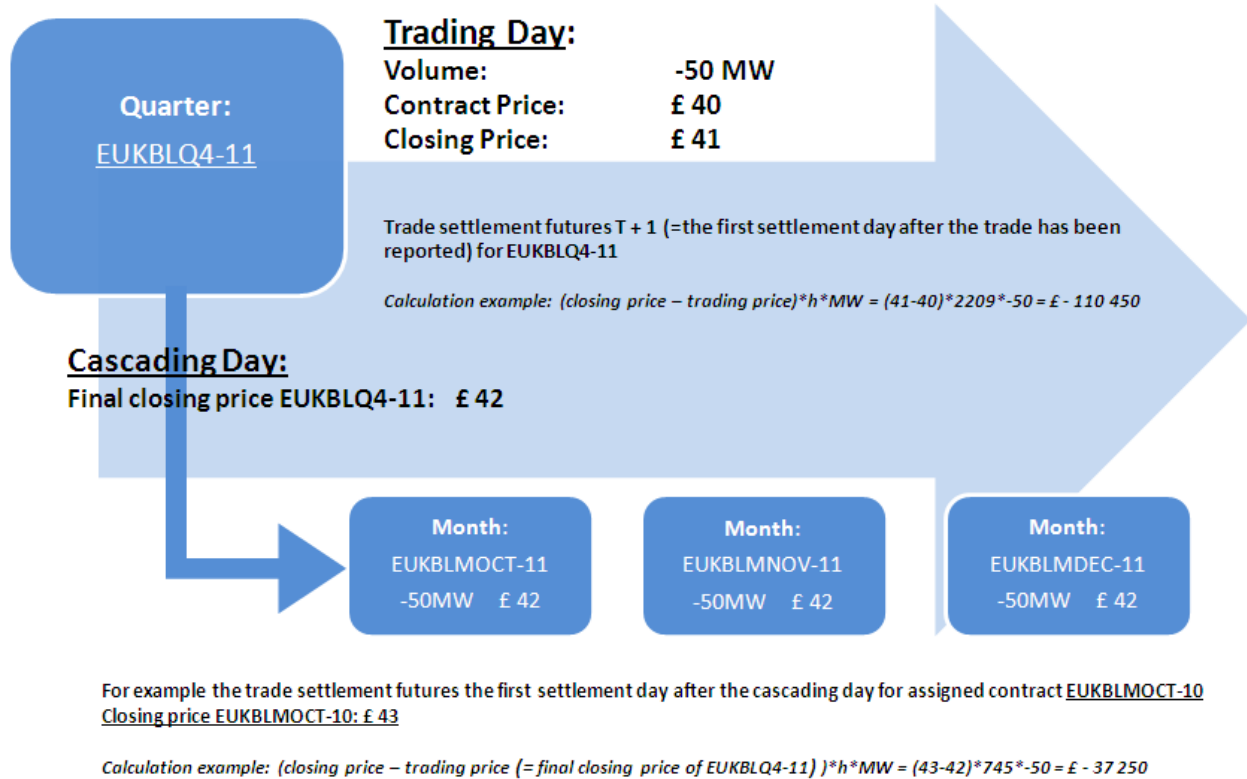


Fig 2: Example with a quarter contract cascaded to months, including settlement values.

3 Settlement overview

As the contracts are defined as future contracts, they will be subject to daily mark to market settlement in the trading period and a spot reference cash settlement in the delivery period.

The clearinghouse reports the cash settlement amount and fees to members via the clearing report application (CRA). The CRA includes both settlement for EUR Contracts and GBP contracts.

3.1 Fees

Fees relating to the GBP contracts will be charged in GBP on Trading day + 1. The trading fee level will be a fixed amount. The clearing fee level is based on the volume traded last quarter for both GBP contracts and EUR contracts.

The clearing fee list and the trading fee list will be updated with fees relating to the GBP contracts and will be available here:

www.nasdaqomxcommodities.com/clearing/clearingrulebook.

3.1.1 Annual Fee

The annual fee will be charged in advance in the beginning of each year. There is no extra annual fee for GBP contracts.

3.2 Daily market settlement

During a futures contract's trading period a cash settlement based on mark-to-market of the contract is calculated and paid on clearing days.

3.3 Spot reference cash settlement

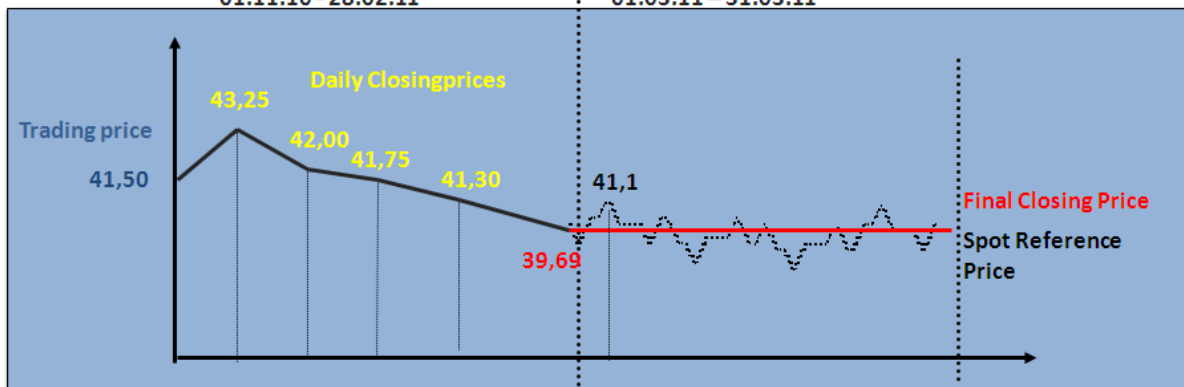
The spot reference cash Settlement is the cash settlement executed on clearing days during the delivery period. This settlement is based on the daily spot price set on the underlying physical reference price.

EUKBLMMAR-11

- 744 hours

Trading period
01.11.10 - 28.02.11

Delivery period
01.03.11 - 31.03.11



Daily Settlement through trading period:

Daily Marked-to-market calculation (contract hours)

Contract: Buy +5MW MAR-11 (744 hours)
 Contract price: GBP 41,50
 Settlement T+1: $(43,25 - 41,50) \times 5 \text{ MW} \times 744 \text{ h} = \text{£ } 6.510$
 Settlement T+2: $(42,00 - 43,25) \times 5 \text{ MW} \times 744 \text{ h} = \text{£ } -4.650$

Daily Settlement through delivery period:

Cash settlement calculated on a daily basis 24h

Spot Reference Cash Settlement =
 $(\text{Spot Reference Price} - \text{Final Closing Price}) \times +/- \text{MW} \times 24 \text{h}$

Spot Reference Cash Settlement : 05.03.11
 $(41,10 - 39,69) \times 5 \text{ MW} \times 24 \text{h} = \text{€ } +169,2$

3.4 Settlement on bank holidays

For members clearing *both* EUR and GBP contracts, the clearinghouse will perform settlement on days when banks in the respective markets are open. Settlement relating to EUR contracts will be executed on Norwegian banking Ddays and settlement relating to GBP contracts will be executed on days when banks on UK banking days. Thus, there will be no settlement on EUR contracts on a Norwegian bank holiday even if the market is open for the GBP contracts. For details on applicable clearing days please see:

www.nasdaqomxcommodities.com/digitalAssets/68/68697_clearingappendix4.pdf

3.5 Collateral call

For more information regarding base collateral, margin calls, risk parameters and other risk management related issues, please see the margining and risk document from risk management of NASDAQ OMX.

www.nasdaqomxcommodities.com/clearing/riskmanagement

4 Bank solution

Special settlement and collateral arrangements are required for the GBP contracts,

- The cash settlements are paid from/to a GBP settlement account in the members name.
- A GBP cash collateral account must be opened in an account bank. A bank guarantee/letter of credit is optional and may be used to cover collaterals in addition to the GBP cash collateral account.

Please note the specific requirements to become an account bank:

www.nasdaqomxcommodities.com/digitalAssets/71/71870_ukbankrequirements.pdf

4.1 Settlement arrangements

The member must open a GBP settlement account in a predefined bank

(www.nasdaqomxcommodities.com/clearing/gbpsettlementbanklist)

The clearinghouse reports on a daily basis the cash settlement amount that will be credited or debited from the GBP settlement account.

4.1.1 GBP settlement account

The settlement is performed on each clearing day from the members specific GBP settlement account. The setup is as follows:

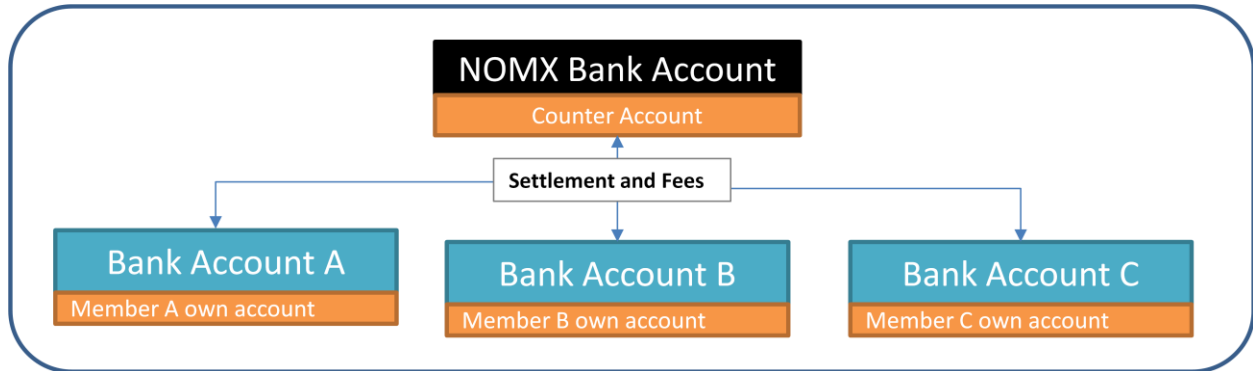


Fig 3. A view of the daily movements from the bank accounts within the GBP settlement bank.

The setup is based on direct debit, which implies an automatic transferral from one account to another. Note that the settlement is performed via one payment instruction. The clearinghouse sends the payment instructions (PAYMUL to be converted to MT101) to the GBP settlement bank to debit and credit the member’s GBP settlement account of the amount calculated.

No later than 06.00, a SWIFT MT940 stating the opening account balance of the GBP settlement account, will be sent from the respective GBP settlement bank to Nordea Bank Oslo. At 10.03, 12.03 and 14.03 the GBP settlement bank will send a SWIFT MT942 to Nordea Bank Oslo. This message contains intra-day transaction information on the specified GBP settlement account.

4.2 Collateral arrangements and Collateral calls

The members must open a GBP cash collateral account and execute a collateral security deed (CSD).

The member can also choose a bank guarantee/ letter of credit to as collateral in addition to the GBP cash collateral account.

Collateral calls relating to GBP contracts will be calculated and must be satisfied on each applicable clearing day. For members clearing both GBP contracts and EUR contracts, collateral calls for both GBP contracts and EUR contracts are calculated and must be covered on each day being a clearing day for either EUR contracts or GBP contracts. Members clearing both EUR and GBP contracts with EUR margin currency may have to actively pledge excess cash on its EUR account on EUR bank holidays.

Please see www.nasdaqomxcommodities.com/clearing/riskmanagement for further details on margining.

4.2.1 GBP cash collateral account

The GBP cash collateral account is solely for collateral purposes, and balance information is sent daily to clearinghouse. No later than 06:00, a SWIFT MT940 stating the opening account balance of the GBP cash collateral account, will be sent from the respective GBP account banks to Nordea Bank Oslo. Nordea Bank Oslo will convert the MT940 to EDIFACT FINSTA and send this immediately to the clearinghouse. The account balance on the GBP cash collateral account will be used to cover applicable the collateral call.

At 10.03, 12:03 and 14.03 the GBP account bank will send a SWIFT MT942 to Nordea Bank Oslo. This message contains intra-day transaction information on the specified GBP cash collateral account.

A member with a deficient margin cover must ensure that the collateral call is satisfied by 10.00. The MT942 from the account bank at 10.03 will then confirm that that the collateral call has been met.

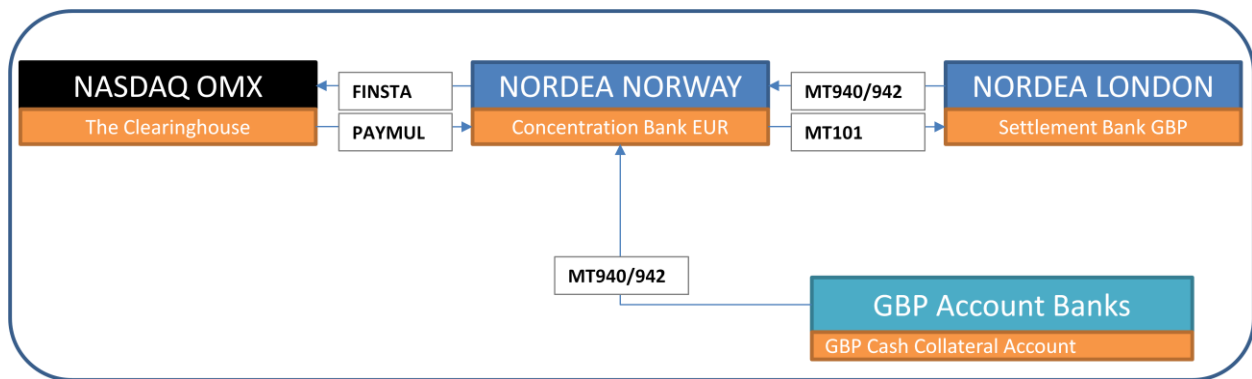


Fig 4. The Bank setup for both settlement and collateral calls.

4.2.2 GBP collateral security deed (CSD)

The CSD needs to be in place to secure the members’ liabilities to the clearinghouse, whereby the clearinghouse is granted security interests to the money on the GBP cash collateral account.

For a template of the CSD, please see:

www.nasdaqomxcommodities.com/digitalAssets/68/68697_clearingappendix4.pdf

Any release of funds from the GBP cash collateral account is subject to the clearinghouse’s consent. A request to release funds must be executed by authorized personnel, and or initiated by authorized personnel of the member. The clearinghouse will handle any requests to release funds without undue delay.

4.2.3 GBP bank guarantee and GBP letter of credit

A bank guarantee and/or a letter of credit (L/C) is optional for the member to be used to cover the collaterals. The amount stated in the bank guarantee and/or L/C will be considered to assess whether a collateral call is satisfied. Templates of the GBP bank guarantee and GBP letter of credit are provided by the clearinghouse

For more details on the above mentioned agreements, please see:

www.nasdaqomxcommodities.com/clearing/clearingrulebook

5 Clearing account setup

All existing members can choose if they want to include GBP contracts in their current clearing portfolios, or to open a specific clearing portfolio for GBP contracts (at additional clearing portfolio cost).

The daily margin call will be calculated on the clearing account for all members (please see this document for further description of our account setup:

www.nasdaqomxcommodities.com/clearing/accountstructure. A specific settlement clearing account will be created for the sole purpose of aggregating settlement amounts from the clearing portfolios for GBP contracts. This account will be added to the existing minimum clearing account setup for members.

Members will be able to see settlement information on this specific settlement clearing account in CRA and PI. No settlement information on GBP contracts will be provided on other clearing accounts. EUR contract will be settled on the clearing account as usual.

Account Structure Clearing Member (example)

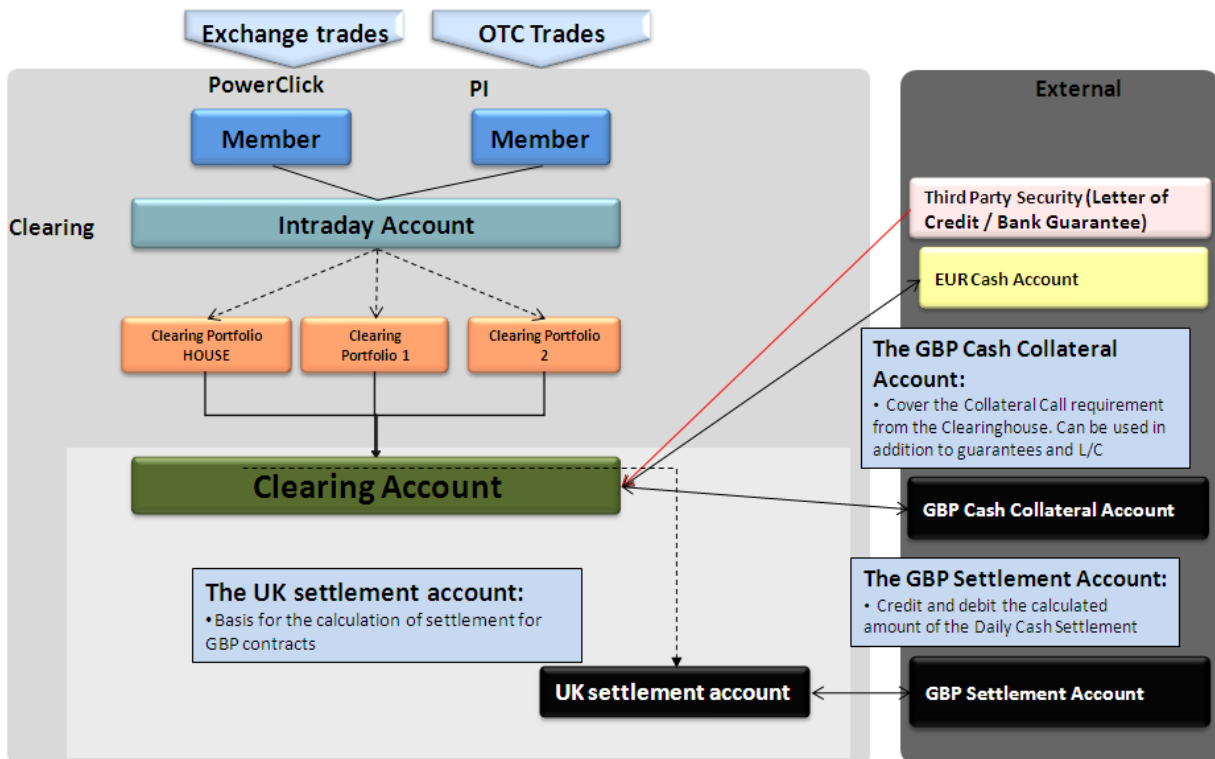


Fig 5. View of the enhanced account structure where the new accounts are in black with a further explanation in the blue fact boxes.

6 CRA

The CRA report will be slightly amended due to the introduction of the GBP contracts. Some reports will include the GBP contracts in the existing report, whilst others will be divided into sections. The reports have been updated with these changes.

Report	Changes
01 – Tradelist	Info field added: Currency
02 – Settlement from trades	Info field removed: Fee type. Info field added: Market.
03 b – Expiry market settlement	Info field added: Market.
04 c – Assign exercise fee detail	Info field removed: Option cash settlement
06 c – Currency and spot information	New ref price for UK marked: EUKBSPG (base) and EUKPSPG (peak)
07 – Margin	Changed report date prompt from settlement date to position date. Info field “risk interval/comp delta (options)” renamed to “risk interval (contract curr)/comp delta (options)”.
07b – Margin and Collateral Summary	Changed report date prompt from settlement date to position date. New info field: “Cash coll usage – Other curr”.
07c– Guarantee details securities and settlement bank	Changed report date prompt from settlement date to position date.
07d– Margin pre ICS	Changed report date prompt from settlement date to position date.
09 – Collateral settlement margin	Changed report date prompt from settlement date to position date. Renamed info field “inital margin call” to “base collateral call” New info field: Cash collateral usage - other currency
20 – Tradelist Broker	New info field: Currency

7 Trade reporting in PI

7.1 Members

No changes will be performed on trade reporting in PI. When a member has established the necessary settlement and collateral arrangements and is ready to start trading the member does not need to update the existing broker appointment form, if it is not requested by the member itself.

The entry form does not need an update in order to start trading GBP contracts.

7.2 Brokers

Brokers can report a GBP contract either via PI or directly from a third party vendor on behalf of pre-approved members.